

**REPORT OF THE AUDIT OF THE
MORGAN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MORGAN COUNTY SHERIFF

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Morgan County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$22,836 from the prior year, resulting in excess fees of \$64,918 as of December 31, 2008. Revenues increased by \$116,588 from the prior year and expenditures increased by \$93,752.

Report Comments:

- 2008-01 The Sheriff Should Submit Financial Reports To The Department For Local Government
- 2008-02 The Sheriff Did Not Receive 1/12 Of His Salary Each Month
- 2008-03 The Sheriff Did Not Present His Annual Financial Report To The Fiscal Court
- 2008-04 The Sheriff Did Not Prepare Monthly Bank Reconciliations
- 2008-05 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured by FDIC insurance.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Conley, Morgan County Judge/Executive
The Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Morgan County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 3, 2010 on our consideration of the Morgan County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Tim Conley, Morgan County Judge/Executive
The Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2008-01 The Sheriff Should Submit Financial Reports To The Department For Local Government
- 2008-02 The Sheriff Did Not Receive 1/12 Of His Salary Each Month
- 2008-03 The Sheriff Did Not Present His Annual Financial Report To The Fiscal Court
- 2008-04 The Sheriff Did Not Prepare Monthly Bank Reconciliations
- 2008-05 The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Morgan County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

March 3, 2010

MORGAN COUNTY
 MICKEY WHITT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	8,187
State Fees For Services:		
Finance and Administration Cabinet	\$	16,042
Sheriff Security Service	9,725	25,767
Circuit Court Clerk:		
Fines and Fees Collected		1,240
Fiscal Court		123,442
County Clerk - Delinquent Taxes		2,652
Commission On Taxes Collected		140,753
Fees Collected For Services:		
Auto Inspections	3,055	
Serving Papers	25,279	
Carrying Concealed Deadly Weapon Permits	3,755	32,089
Other:		
Advertising Fees	130	
Transporting Prisoners	1,086	
Add-on Fees	23,340	
Miscellaneous	504	25,060
Interest Earned		1,616
Total Revenues		360,806

The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY
 MICKEY WHITT, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries \$ 112,497

Part-Time Salaries 6,717

Employee Benefits-

Employer's Share Social Security 13,814

Employer's Share Retirement 6,613

Employer's Share Hazardous Duty Retirement 39,473

Contracted Services-

Advertising 213

Vehicle Maintenance and Repairs 3,375

Materials and Supplies-

Office Materials and Supplies 6,820

Uniforms 991

Other Charges-

Conventions and Travel 3,268

Dues 702

Postage 2,643

Phone and Fax 4,394

Fugitive Transport 3,609

Carrying Concealed Deadly Weapon Permits 1,655

Miscellaneous 14,170

Bond 914

Total Expenditures

\$ 221,868

The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY
 MICKEY WHITT, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Net Revenues		\$	138,938
Less: Statutory Maximum			<u>74,020</u>
Excess Fees Due County for 2008			64,918
Payments to Fiscal Court - April 21, 2009	\$	37,503	
Payments to Fiscal Court - September 24, 2009		<u>27,415</u>	<u>64,918</u>
Balance Due Fiscal Court at Completion of Audit		\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Morgan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Morgan County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance.

Note 4. Kentucky Law Enforcement Foundation Program Fund

The Morgan County Sheriff's office was awarded a grant under the Kentucky Law Enforcement Foundation Program Fund (KLEFPF) from the Commonwealth of Kentucky Department of Criminal Justice Training. Under the program, an eligible officer is entitled to receive up to \$3,100 annually as provided in KRS 15.460. During 2008, the Morgan County Sheriff's office received \$8,187. All funds received were expended for the intended purpose.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Conley, Morgan County Judge/Executive
The Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Morgan County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated March 3, 2010. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morgan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2008-04 and 2008-05 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Morgan County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2008-01, 2008-02, and 2008-03.

The Morgan County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Morgan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 3, 2010

COMMENTS AND RECOMMENDATIONS

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

STATE LAWS AND REGULATIONS:

2008-01 The Sheriff Should Submit Financial Reports To The Department For Local Government

The Sheriff did not submit quarterly reports to the Department for Local Development (DLG) for calendar year 2008. DLG requires fee officials to file quarterly financial reports listing receipts and disbursements for the quarter and in total for the year-to-date within 30 days of the end of a financial quarter. The lack of complete and accurate financial reports could cause the official to make improper financial decisions, inadvertently overspend his budget, and/or create a deficit in his fee account. We recommend the Sheriff ensure that all financial reports are complete, accurate, and submitted timely.

Sheriff's Response: Our office has an excel program that allows us to generate an accurate quarterly report for all receipts and disbursements. This report will be turned in to DLG.

2008-02 The Sheriff Did Not Receive 1/12 Of His Salary Each Month

The Sheriff receives \$1,400 of compensation each pay period (two weeks) and then receives a lump sum payment to achieve the salary maximum of \$74,020 in December. KRS 64.535 requires the Sheriff to receive his annual salary in equal installments that represent 1/12 of the total allocated amount each month. We recommend the Sheriff confer with the County Treasurer about how to resolve this issue to become compliant with KRS 64.535.

Sheriff's Response: We have a small office budget which we have a minimal amount of money to operate on throughout the year. I allow myself to be paid only a small amount every two weeks and when the office has a sufficient amount of money I later pay my remaining salary owed to me at the end of the year. This allows the office to operate with more funds available.

2008-03 The Sheriff Did Not Present His Annual Financial Report To The Fiscal Court

The Sheriff did not present his 2008 annual financial statement to the fiscal court. Sheriffs are required to submit an annual settlement to the fiscal court per KRS 134.310. We recommend the Sheriff ensure the annual settlement is presented to the fiscal court and that this action is reflected in the fiscal court minutes.

Sheriff's Response: Our office pays over all excess fees to the fiscal court as a final settlement. This number is presented in our yearly budget that is presented to the Fiscal Court.

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

2008-04 The Sheriff Did Not Prepare Monthly Bank Reconciliations

The Sheriff did not prepare complete monthly bank reconciliations in 2008. The bookkeeper compares the bank statement to daily checkout sheets to determine the accuracy of receipts and compares cancelled checks to the checkbook to ensure checks cleared for the correct amounts. These amounts are then used to post to receipts and disbursements ledgers. However, the bank balance is not reconciled to the book balance, mainly because a running book balance is not maintained. Bank reconciliations are a very useful tool in agreeing receipt and disbursements ledgers to bank activity. In addition, timely bank reconciliations are essential in detecting errors and misstatements that can occur. The absence of bank reconciliations increases the risk that errors will occur and will go undetected, leading to inaccurate ledgers, financial reports, etc. We recommend the Sheriff prepare monthly bank reconciliations that reconcile bank activity to ledger balances.

Sheriff's Response: Our office has a procedure that bank reconciliations are done by recording all checks on to the disbursements ledger on excel, recording all deposits on to the receipts ledger on excel, and checking all with daily checkout sheets and deposit books. The ledgers are then compared to the bank statement. This procedure allows us to keep accurate records. This process is reviewed by office staff and myself.

2008-05 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties due to the responsibilities of recording, depositing, and reconciling cash being delegated to only two individuals. The functions of receiving, recording, depositing, and reconciling cash should be separated whenever possible in order to decrease the risk that errors, misstatements, and/or fraud will occur and go undetected.

The Sheriff has implemented compensating controls to try to limit the affect of the inadequate segregation of duties. The Sheriff has one employee prepare daily checkout sheets and the other office employee reviews it for accuracy and initials the checkout sheet. The Sheriff then reviews the daily checkout sheet and compares it to the deposit ticket and initials the checkout sheet. The Sheriff also has office staff review the bank statement together to agree deposits to the receipts ledger and cancelled checks to the disbursements ledger. Both office employees initial the bank statement and the Sheriff then initials that he has reviewed this process. The Sheriff has also separated the duties of paying invoices with recording in the disbursements ledger. The office assistant now prepares checks for payment and maintains all invoices and the bookkeeper records the checks in the disbursements ledger. Both employees are involved in the reconciliation process.

We recommend the Sheriff implement additional controls to further limit the affect of inadequate segregation of duties on financial reporting. Examples of additional compensating controls include: performing surprise cash counts, signing all checks, and ensuring complete and accurate financial reports be prepared and submitted to appropriate agencies (DLG and FC).

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(CONTINUED)

2008-05 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

Sheriff's Response: We are a small office that has a tight budget to operate. We feel that all duties are being done adequately.

